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Foreword | *To date, Australia has been relatively quarantined from large-scale, organised terrorist activities such as those which have emerged in central and southeast Asia, Europe and the United States. Nonetheless, as a well-resourced country, Australia is at risk of being a location from which funds for terrorist activities may be drawn—even if the activities themselves are based predominantly in other countries. This paper presents information on the environments in which the financing of terrorism have taken place in recent years and the trajectory of financing of terrorism risk which is likely to emerge for Australia and globally in the years ahead. Consideration is given to how financing of terrorism occurs, not only through the use of illegally obtained funds, but also through financing derived from legitimate sources, such as charitable donations, which are diverted for use in terrorist activities. It is concluded that although evidence of financing of terrorism is limited in Australia, risks are present that need to be addressed, not only through effective gathering and the use of financial intelligence, but also through the prosecution and punishment of offenders and the education of those individuals and communities most at risk of becoming involved in illegal activities, both intentionally and inadvertently.*

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Financing of terrorism: Risks for Australia

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Terrorists aim at intimidating people, compelling states to comply with their demands, or destabilising or destroying the fundamental political, constitutional, economic or social structures of a country or an organisation (Europol 2009: 5).

Terrorist groups may have a range of motivations and justifications for their actions including support of a particular religious faith; promotion of international recognition and political self-determination for ethno-nationalist and separatist groups; the achievement of entire political, social, or economic system change according to extremist left- or right-wing models; or simply changing a specific policy or practice as in the case of animal experimentation.

One of the main responses to threats of terrorist activity involves the use of financial transaction reporting and monitoring. This operates in two ways—first, by placing impediments in the path of those who seek to accrue and to move funds using the regulated financial sector and second, by enabling law enforcement and intelligence agencies to follow the financial trail of transactions left by those who make use of the regulated financial sector, so as to detect and to prevent possible attacks.

This paper examines the global environment in which the financing of terrorism occurs, particularly with respect to the activities of transnational, organised groups that may have an involvement with terrorist organisations. Consideration is then given to how the financing of terrorism occurs, first through the use of illegally obtained funds and then through financing derived from legitimate sources, such as charitable donations, which are diverted for use in terrorist activities. Evidence of the financing of terrorism in Australia is then examined and cases which have been detected and prosecuted in Australia that entail an element of terrorist financing are reviewed. Although the number of cases is small, they are indicative of the fact that Australia is not immune from terrorist activities that are being financed by Australian individuals and organisations.

Global trends in the financing of terrorism

A number of developments have been identified in the international security landscape in recent years that have had an influence on global trends in terrorist activity. First, since the end of the Cold War, guerrilla and terrorist groups have experienced a considerable decline in funding from state sponsors, due to greater international scrutiny and condemnation. As a result, they have become increasingly self-financed, mainly through the proceeds of drug trafficking (DFAT 2004; Levitt & Jacobson 2008).

Second, outside conflict zones, the 'home-grown' terrorist threat has emerged as the most dominant area of risk (Gartenstein-Ross & Grossman 2009). It has been argued that some home-grown terrorist cells are likely to seek the assistance of foreign terrorist cells for the provision of training, finance and general inspiration in their efforts. In the European Union (EU), the number of persons associated with home-grown extremist Muslim terrorist groups increased in 2008 owing to developments in conflict zones and politically unstable countries, such as North Africa, the Sahel region, Iraq, Somalia, Yemen, Afghanistan, Pakistan and India. There is also a worrying trend in terms of radicalisation emanating from the heart of Muslim communities, as well as self-radicalisation in both migrant and diaspora sections of Muslim communities (Gunaratna 2008).

In Europe, seven EU member states reported a total of 515 failed, foiled or successfully perpetrated terrorist attacks in 2008 (Europol 2009). Europol reports that illegal sources of funding for terrorism included fraud and counterfeiting, burglary, kidnapping and extortion. Extremist Muslim terrorist groups generated more money than non-Muslim terrorist groups, with the majority of persons arrested on suspicion of financing of extremist Muslim terrorism being involved in fraud. Separatist and left-wing terrorists, however, were more often accused of extortion.

Australia continues to be a terrorist target and 'although al-Qa'ida has not itself launched a direct attack on Australia, it has shown an operational interest in doing so' (DPM&C 2010: 13). Since 2001, more than 100 Australians have been killed in terrorist attacks overseas and numerous other attacks have been thwarted in Australia (DPM&C 2010). Although Australia is subject to risks of attack similar to other Western democracies, its proximity to a number of Muslim countries may enhance its vulnerability. Southeast Asian countries have become home to loosely-affiliated terrorist networks, including those associated with Jemaah Islamiyah (JI) and the Abu Sayyaf Group (DPM&C 2010). Funds for terrorism may come from both legitimate and illegal sources and understanding how terrorist groups are financed remains an important means of preventing terrorist groups from functioning and thus minimising the risk of attack.

Financing of terrorism using illegally-obtained funds

Illicit drug trafficking

Terrorist groups continue to be heavily involved in the drug trade in the drug-producing regions of Afghanistan, Colombia, Peru and elsewhere. According to the US Drug Enforcement Administration, 19 of the 43 designated foreign terrorist organisations have definitive links to the global drug trade and up to 60 percent of terrorist organisations are connected to the illegal narcotics trade in some way (Braun 2008). The relationship between insurgent groups and drug trafficking cartels has been said to be one of mutual benefit. For example, exchanges are made of drugs for weapons; both use the same smuggling routes, similar methods to conceal profits, fund-raising and resources for laundering money and even the same corrupt government officials. Much of the drug-related income generated by terrorist and extremist groups is derived from taxation levied for the protection of drug growers, laboratories, clandestine landing fields and transport of drugs or precursor chemicals through guerrilla-controlled territory (Berry et al. 2002).

Drug trafficking is increasingly used by extremist Muslim groups to fund their operations. It has been suggested that the criminal enterprises of some insurgent groups have assumed greater priority than their own ideological agendas as they become increasingly involved in the drug trade. Examples include the Abu Sayyaf Group (ASG) in the southern Philippines and the Revolutionary Armed Forces of Colombia (FARC) in Colombia (Berry et al. 2002; Braun 2008).

There is some indication that the Basque Fatherland and Liberty (Euzkadi Ta Azkatasuna (ETA)) in Europe has been involved in a variety of crimes, including drug trafficking. The Real Irish Republican Army (RIRA) has been linked to the Middle Eastern narcotics industry, while the Kurdistan Workers' Party (PKK) has also been actively involved in money laundering and drug trafficking (Bell 2004). Some believe that, as state sponsorship declines, Hizbulla's involvement in drug trafficking and other illegal activity may expand, however, the group is still currently reported to be receiving substantial funding from Iran. The Islamic Movement of Uzbekistan (IMU) also funds itself largely from drug trafficking and controls the main drug-trafficking routes through the Central Asian region (Berry et al. 2002).

Kidnapping and associated extortion

FARC has experienced changes in funding for its activities in the last two decades. Previously, FARC generated funds mainly through extortion and kidnapping for ransom. However, by the early 1990s, the group obtained 62 percent of its income from the illicit drug industry (Berry et al. 2002). According to Colombian Government estimates, the revenue of Colombia's guerrilla and paramilitary organisations totalled US\$31.1m from extortion and US\$236m from kidnappings in 1998 alone (Berry et al. 2002). More recently, FARC units have raised funds through the extortion of both legal and illegal businesses, the latter including the drug trade. Some FARC units have also protected cocaine laboratories and clandestine airstrips in

return for cash payments, or possibly in exchange for weapons. FARC also operates in Venezuela as a separatist, narco-terrorist group, along with the Ejercito de Liberacion Nacional (ELN). Both use Venezuela as a safe haven and a location for the transit of drugs, people and arms (Berry et al. 2002). In Venezuela, and elsewhere, kidnapping and extortion of nationals and foreigners are part of their general financing strategies.

In the Philippines, abductions are often carried out by armed men who usually claim to be Muslim separatist rebels. One small armed group, the Abu Sayyaf, which is recognised as a terrorist group, regularly uses kidnapping and targets both Filipino nationals as well as foreigners (DFAT 2004; Maclean 2001). It is also involved in narcotics sales and production of methamphetamine hydrochloride and marijuana (Berry et al. 2002).

Smuggling

Cross-border smuggling, particularly in drugs, arms and people, has become very profitable for many terrorist groups and often involves a coordinated, organised structure with a distribution network that transports and sells contraband (Levitt & Jacobson 2008). Extremist Muslim groups in Colombia, for example, are heavily involved in smuggling contraband and weapons and are involved in the Black Market Peso Exchange (Berry et al. 2002). The profits are often transmitted as bulk cash and smuggled to a jurisdiction chosen for its lack of regulatory controls through the use of structures such as shell companies. These are used to disguise the origins of the proceeds of crime and are able to be used for a short period of time before being dissolved.

On the outside, these companies appear to engage in legitimate activities and may appear to have a positive reputation in the business community. However, shell companies are used to launder funds, for example, by producing invoices for non-existent products that are paid by another party with profits from illegal activities, such as identity theft and insurance fraud (Kane & Wall 2005).

Box 1 Abdul Nacer Benbrika and others

In November 2005, 10 men were arrested in Melbourne and charged with terrorism offences under Part 5.3 of the Criminal Code Act 1995 (Cth). A further three men were arrested in March 2006 and charged with similar and related offences. All 13 were alleged to have been members of a local unnamed terrorist organisation led by Mr Benbrika. It was alleged that the organisation was committed to preparing, planning, assisting in, or fostering the commission of terrorist acts in an effort to influence the Australian Government to withdraw its troops from Iraq and Afghanistan.

Four of the 13 accused were acquitted, with the balance convicted following either pleas of guilty or a contested trial. Three of the accused were also convicted of attempting to make funds available to a terrorist organisation. The court found that they intended to do this by selling parts from stolen cars and using the proceeds of sale for the purposes of the organisation. The court accepted evidence that an amount probably in the order of \$7000 had been raised through other means.

Seven of the convicted prisoners have appealed against their convictions. At the time of writing, the appeals had been heard but the decision was reserved (CDPP 2009).

Other reports have confirmed that leaders of the Albanian National Army (Albanian Initialism AKSh) and the National Liberation Army (NLA) have been involved in crimes such as large-scale smuggling of weapons, human beings, narcotics and other goods to finance terrorist activities in Macedonia and Kosovo (Berry et al. 2002).

Fraud and financial crime

Kane and Wall (2005) undertook an analysis of 100 US federal criminal cases brought since the 11 September 2001 attack and found that cases involving credit card fraud and other forms of financial fraud were most directly involved with funding terrorist activities. The study predicted that computer-facilitated crimes were likely to be part of terrorism-related cases in the future, in particular, with respect to money laundering and duplication of identification documents and monetary instruments.

More recently, between mid-2008 and November 2008 in Milan and Bologna, Italian police and Carabinieri arrested members of two different extremist Muslim cells who were coordinating and supporting finances for the recruitment and transport of suicide bombers to Afghanistan. In one case, the funds were being raised from the sale and/or exchange of false documents and in the other, by petty fraud (Ridley 2009).

Other organised crimes

Extremist Muslim groups have expanded their criminal operations into numerous areas including operating prostitution rings

comprised of Bosnian Muslim and North African women, laundering money and disseminating high-quality, Iranian-printed currency (Berry et al. 2002). In Austria during 2008, several investigations were conducted into the suspected financing of extremist Muslim terrorism, with most cases being initiated in response to notifications from financial institutions. Suspects included individuals of North African origin who allegedly raised funds for terrorist organisations via property-related crime (Europol 2009).

Finally, there are emerging risks of terrorist involvement in relation to maritime piracy. Hardouin and Weichhardt (2006) argue that

this link is particularly dangerous for the international energy markets as most oil and gas transports are by sea. According to the International Maritime Bureau, both the frequency and the violence of piracy acts have increased in recent years. The traditional operating areas of maritime pirates and terrorists are the Arabian Sea, the South Chinese Sea (sic) and waters off the coast of West Africa. The Strait of Malacca (sic) is a particularly threatened area (Hardouin & Weichhardt 2006: 307).

Financing of terrorism using legally obtained funds

Terrorist organisations are also able to finance their activities through the use of a variety of ostensibly legal methods, including the collection of subscriptions

or membership payments, the collection of fees in connection with events organised by the group (such as meetings or entry to cultural and social events), the sale of literature and publications of the organisation and solicitation of donations within ethnic communities—particularly from wealthy members and supporting business groups.

In addition to these methods, a number of terrorist groups operate as functioning businesses in which legitimate and illegitimate funds and business activities are blended. Examples include the Abu Nidal Organisation, Lashkar-e-Toiba, Liberation Tigers of Tamil Eelam (LTTE), FARC, Hezbollah, the Irish Republican Army (IRA), and JI (Passas 2007).

There is also evidence that terrorist activities may be self-funded. The official report into the 7 July 2005 attacks on the London transport system concluded that the group was self-financed with no external sources of income. The overall cost of the attacks was estimated to be less than £8,000 (FATF 2008).

One particular area of concern relates to charitable donations. Often these are given by unsuspecting donors in the expectation that they will be used for lawful purposes when, in fact, the donations find their way into terrorist activities, or are used to support terrorist organisations. The attraction of charities to terrorist organisations lies in the reluctance on the part of many nations to examine the activities of ostensibly beneficial organisations as it is felt that the relevant authorities would find it difficult to differentiate between legitimate charities, charities unwittingly being used by terrorists and charities deliberately engaging in

Box 2 Aruran Vinayagamoorthy and others

In 2009, three men - Aruran Vinayagamoorthy, Sivarajah Yathavan and Arumugan Rajeevan Tash - pleaded guilty to offences under the Charter of the United Nations Act 1945 (Cth) for making money available to an entity, the Liberation Tigers of Tamil Eelam (LTTE), proscribed for the purposes of that Act. It was the prosecution case that \$1,030,259 was made available to the LTTE. Although the judge at sentencing found it was not possible to say precisely how much money was made available, he considered that they were large amounts. It was also the prosecution case that Mr Vinayagamoorthy made an estimated \$97,000 worth of electronic components available to the LTTE over a period of about two years. The court accepted that the defendants were motivated partly by a desire to assist the Tamil community. The three were sentenced to terms of imprisonment, but released on good behaviour bonds (R v Vinayagamoorthy & Ors [2010] VSC 148, 31 March 2010).

terrorist financing (Looney 2006). In the United Kingdom, the Charity Commission (2007) has suggested that the increased regulation of the financial sector may lead to further exploitation of the less-regulated charity sector.

In Europe, one of the core activities of the LTTE has been the collection of funds from Tamil communities on a monthly basis to finance military procurement (Europol 2009), although the government action against the LTTE in Sri Lanka leading to the death of the LTTE leader Velupillai Prabhakaran in May 2009 has clearly altered this situation (Wade 2009).

A number of charitable organisations have been used by al-Qa'ida to raise, mask, transfer and distribute funds on its behalf. In southeast Asia, it is believed that charities are the second most important source of funds for regional terrorist groups, after illegally obtained sources (DFAT 2004). Of particular concern for Australia are JI and al-Qa'ida, branches of which both operate in the Philippines and Indonesia with links to charitable organisations in Saudi Arabia (Croissant & Barlow 2007).

The scale of the problem

Determining the scale of the problem of financing of terrorism can be calculated using two different methods. First, by calculating the amount of funds required to support terrorist organisations generally, and second, by calculating the amount of funds required to finance specific terrorist incidents, such as the level of funding required for the purchase of weapons, bombs, training, travel and living expenses associated with terrorist activities. Of the estimated US\$1,000t that is transferred annually within international financial markets, only several hundred million dollars is estimated to be involved in the general financing of terrorism annually (Vassiliev 2003). Much smaller sums are required for the actual implementation of terrorist attacks (Bell 2004). In August 2004, the United Nations Monitoring Team Report on al-Qa'ida and the Taliban provided estimates of the costs of terrorist attacks which show the relatively low funding required to commit attacks compared with the damage they can yield—see Table 1 and Box 3.

Another indication of the amount of funds involved in terrorist activities can be derived from an examination of the value of assets that have been frozen in accordance with international counter-terrorism laws. In Australia, the Department of Foreign Affairs and Trade maintains a consolidated list which, in January 2010, named 3,533 individuals and groups to which the terrorist asset freezing regime applied (DFAT 2010). At February 2006, Australia had only frozen assets belonging to one group,

Table 1 The direct attack costs of a terrorist conspiracy

Attack	Date	Estimated cost
London transport system	7 July 2005	£8,000
Madrid train bombings	11 March 2004	US\$10,000
Istanbul truck bomb attacks	15 & 20 November 2003	US\$40,000
Jakarta JW Marriot Hotel bombing	5 August 2003	US\$30,000
Bali bombings	12 October 2002	US\$50,000
USS Cole attack	12 October 2000	US\$10,000
East Africa embassy bombings	7 August 1998	US\$50,000

Source FATF 2008: 7

Box 3 Mohamed Ali Elomar and others

In February 2010, five men were sentenced to lengthy terms of imprisonment for their participation in a conspiracy to commit acts in preparation for a terrorist act or acts involving the detonation of explosive devices and/or the use of firearms. The aim was to advance the cause of violent jihad so as to coerce, or influence by intimidation, the Australian Government to alter or abandon its policies of support for the United States and other western powers in the Middle East and other areas involving Muslims. The evidence of the financing of the proposed acts indicated that relatively small sums of money were involved and that these were self-funded. One offender paid \$2,100 as a deposit on 10,000 rounds of ammunition. Another offender paid a \$200 deposit for chemicals, while another paid \$433 for more ammunition. Other finance was arranged using coded SMS text messaging, although the court found that it was unclear where the money had actually come from (*Regina (Cth) v Elomar & Ors* [2010] NSWSC 10).

the International Sikh Youth Federation, totalling \$2,197 (AGD 2006).

In the United States, counter-terrorism financing measures are administered by the Office of Foreign Assets Control (OFAC) which, at 31 December 2007, had located and frozen assets worth US\$20,793,102 in the United States linked to international terrorist organisations (OFAC 2008), while in the United Kingdom, more than US\$100m worth of assets had been frozen in the five year period to June 2008. The equivalent of approximately US\$500,000 worth of assets linked to terrorists remained frozen at June 2008 (Home Office 2008).

In Australia, the *Suppression of the Financing of Terrorism Act 2002* (Cth) amended the *Criminal Code Act 1995* (Cth) by inserting a range of offences relating to the financing of terrorism. The current offences that relate to the financing of terrorism in the *Criminal Code Act 1995* (Cth) are getting funds to, from or for a terrorist organisation (intentionally—s 102.6(1)); getting funds to, from or for a terrorist organisation (recklessly—s 102.6(2)); collecting funds for financing terrorism (s 103.1(1)); and collecting funds for financing a terrorist (s 103.2(1)).

Since 2001, 38 people have been prosecuted, or are being prosecuted, as a result of counter-terrorism operations and 20 have been convicted of terrorism offences under the *Criminal Code Act 1995* (Cth). More than 40 Australians have had their passports revoked or applications denied for reasons related to terrorism (DPM&C 2010).

Regulatory responses

Australia is a well-resourced nation that is likely to be a target for fundraising activities by terrorist organisations based both overseas and within Australia itself. Although Australia does not have internal terrorist risks arising from separatist groups, there continue to be threats from extremist Muslim organisations, mainly in connection with the funding of activities overseas. Risks may also arise from groups seeking to change government policies within Australia.

However, actual evidence of how terrorism is financed in Australia is limited. As is the case with anti-money laundering, financial intelligence plays a role in counter-terrorism investigations and contributes to successful prosecution outcomes. The Australian cases have involved individuals who have supported overseas groups, as well as those who have planned terrorist activities within Australia—fortunately without success. Although the incidence of Australian-based financing of terrorism is minimal, there remains an ongoing need to continue counter-terrorism efforts which includes the gathering of financial intelligence.

In Australia, a complex regulatory framework is in place designed to track financial transactions that could be indicative of money laundering or financing of terrorism. AUSTRAC receives information from approximately 17,000 regulated businesses of specified types of transactions. In 2008–09, 6,888 reports were made of suspect matters and of these 29 related to financing of terrorism (AUSTRAC 2009). However, Roberge (2007: 200) observes

that 'the most successful operations against terrorist financing have not come through large or suspect transaction reports but rather from sound intelligence work'. Clearly, there is a place for both.

Those in Muslim communities often rely on alternative remittance systems, such as *hawala*, for the movement of funds internationally. Europol (2009) and others have found that alternative remittance systems, which operate outside the conventional financial sector, greatly facilitate the avoidance of detection when transferring terrorism funds. Yet Rees (2010) found actual evidence of misuse of remittance systems in Australia in connection with terrorist activities is fragmentary. To counter these vulnerabilities, in addition to the general anti-money laundering and counter-terrorism financing (AML/CTF) obligations that apply to other regulated entities, remittance dealers must also register their businesses with the Australian Transaction Reports and Analysis Centre (AUSTRAC); a requirement in line with international AML/CTF standards (AUSTRAC 2009).

Continuing education is needed of those individuals, organisations and communities most at risk of becoming involved in funding illegal activities, both intentionally or inadvertently, in order to minimise risks of terrorist attacks. In addition, education can effectively be used to enhance the social inclusion of ethnic communities and to counteract the processes of radicalisation which may lead to terrorist activities occurring in the first place.

As Rees (2010) observed, one of the most effective ways in which compliance with current AML/CTF regulatory arrangements can be achieved is for government to interact closely with the communities that make use of funds transfer services. Ensuring that those at risk of becoming involved in financing of terrorism understand the laws that are in place, will help not only to

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increase compliance with those laws, but also to minimise the risk of terrorist attacks occurring in the future.

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All URLs correct at 8 April 2010

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